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C O N F I D E N T I A L SECTION 01 OF 02 IRAN RPO DUBAI 000003

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SUBJECT: MAJLES CLASHES WITH AHMADINEJAD ON BUDGET

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CLASSIFIED BY: Ramin Asgard, Acting Director, Iran Regional
Presence Office, Department of State.
REASON: 1.4 (d)

1.(SBU) Summary: President Ahmadinejad presented his budget for the Iranian year 1387 (March 2008-March 2009) to parliament January 7. Appealing to the electorate ahead of the March parliamentary elections, Ahmadinejad again shopped the idea of redistributing oil wealth and raised total expenditures by 19%. This year's budget however, streamlined compared to years past, is creating quite a controversy. Many MPs are declaring it violates sections of the constitution and that it does not provide a clear break down of sources of funding and how those funds will be used. The Director of the Majles Research Center Ahmad Tavakoli said MPs have three options: reject the budget altogether; try to amend the budget; or use the 1386 budget and simply adjust for inflation. Etemaad-e-Melli reported January 22 that MP Naderan of the Majles budget and planning commission said the budget bill is one issue in which the government will have a taste of more Majles disagreement. End summary.

The new budget

2.(SBU) President Ahmadinejad submitted his 2008-2009 (Iranian year 1387) budget bill to the Majles January 7, calling it the "operational directive" for the government, according to press reports. The 600-page bill was drastically shortened from the thousands of pages presented in previous years; a move the president said will make the document more comprehensible and transparent. Zawya reported January 23 that the budget bill projects a 19% increase in total expenditures to a record \$295.6 billion, up from \$248.8 billion. Appealing to the electorate ahead of the March parliamentary elections, Ahmadinejad told the Majles that ordinary people expect to benefit from record oil prices and "the government and parliament cannot stay indifferent to this expectation...we need to redistribute the oil money to the people." Numerous contacts have said that there is a growing frustration inside Iran, not with poverty per se, but with the increasing disparity of wealth and the declining middle class. Multiple sources have said a greater number of BMWs and Mercedes luxury vehicles can be seen on the streets of Tehran. (Note: Due to tariffs such vehicles are \$200,000-\$250,000 and are reportedly purchased via upfront cash transactions. Endnote)

3.(SBU) The president balanced the budget based on an oil price

basis of \$39.70/barrel, an 18% increase over last year's budget, but well below current oil prices which are close to \$100/barrel. According to Zawya, the president said that the budget would need \$36 billion in foreign currency, which will cover petroleum imports and the cost of developing public transport.

Critics of the bill

4.(C) According to a political/economic analyst within Iran, the 1387 budget is generating "important" controversy, with many MPs claiming it violates the portion of the constitution dealing with budget preparation and governmental accounting.

5.(C) Parliamentarians are concerned that the government has not provided a clear, transparent break-down on where the monies are coming from and how they will be spent, said the analyst. Reportedly, many Majles members are worried that the document gives an unprecedented free hand to the cabinet ministries to spend their budgets as they see fit. This is not only in violation of the law, argue the MPs, but it also reduces parliamentary control over government spending - a point that is particularly salient if the new parliament elected in March 2008 is controlled by opposition groups, said the analyst. (Comment: It seems unlikely that reformers will regain control of the Majles. Election coverage to be reported septel. End comment)

6.(SBU) Tehran's conservative MP and Director of the Majles Research Center Ahmad Tavakoli, said the parliament has three available options in regards to the budget:

-- reject the budget altogether. However the government would then not have enough time to prepare a new document before year's end (March 19).

-- amend the budget and send it back to the government for

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review. Many favor this approach in parliament, however the current administration has rarely accepted criticism from parliament. If the Majles opts for this option, Majles Speaker Haddad-Adel has reportedly been given the task of convincing Ahmadinejad to accept the amendments with the promise that the Majles will move quickly to ratify the budget.

-- scrap budget 1387 and adjust the 1386 budget (2007-2008) budget for inflation.

7.(SBU) Etemaad-e-Melli reported January 22 that MP Naderan of the Majles budget and planning commission said he personally believes the budget bill will not be rejected but will undergo drastic changes in form and content. He said that the budget bill is one issue in which the government will have a taste of more Majles disagreement.

8.(C) Comment. The president's economic critics will most likely not approve of the new budget. With inflation officially running at 19% (according to Iran's Central Bank) and liquidity growth at 40% last year, the 19% increase in government spending will only add to inflationary pressures. However it does not appear that Ahmadinejad will curb his spending any time soon, as it is a favored tool of his to buy voters, particularly in the provinces. The current administration has chronically failed to invest their oil windfall revenues in economic programs that could assist with long-term economic growth and stability, in favor of myopic short-term handouts.

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